

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

Audit Report

HEALTH FEE ELIMINATION PROGRAM

Chapter 1, Statutes of 1984, 2nd Extraordinary Session,
and Chapter 1118, Statutes of 1987

July 1, 2001, through June 30, 2003



STEVE WESTLY
California State Controller

July 2005



STEVE WESTLY
California State Controller

July 22, 2005

Jerome Hunter, Ed. D., Chancellor
North Orange Community College District
1830 West Romneya Drive
Anaheim, CA 92801-1819

Dear Dr. Hunter:

The State Controller's Office audited the claims filed by the North Orange County Community College District for costs of the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2nd Extraordinary Session, and Chapter 1118, Statutes of 1987) for the period of July 1, 2001, through June 30, 2003.

The district claimed \$792,165 for the mandated program. Our audit disclosed that \$445,583 is allowable and \$346,582 is unallowable. The unallowable costs occurred because the district overstated indirect costs and understated applicable offsetting revenues. The State paid the district \$106,264. The State will pay allowable costs claimed that exceed the amount paid, totaling \$339,319, contingent upon available appropriations.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (COSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at COSM's Web site, at www.csm.ca.gov (Guidebook link); you may obtain IRC forms by telephone at (916) 323-3562 or by e-mail at csminfo@csm.ca.gov.

If you have any questions, please contact Jim L. Spano, Chief, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

VINCENT P. BROWN
Chief Operating Officer

VPB:JVB/ams

cc: Fred Williams, District Director, Fiscal Affairs
North Orange County Community College District
Ed Monroe, Program Assistant, Fiscal Accountability Section
California Community Colleges Chancellor's Office
Jeannie Oropeza, Program Budget Manager
Education Systems Unit, Department of Finance

Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	2
Views of Responsible Official	3
Restricted Use	3
Schedule 1—Summary of Program Costs.....	4
Findings and Recommendations.....	6
Attachment—District’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office (SCO) audited the claims filed by the North Orange County Community College District for costs of the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2nd Extraordinary Session, and Chapter 1118, Statutes of 1987) for the period of July 1, 2001, through June 30, 2003. The last day of fieldwork was August 11, 2004.

The district claimed \$792,165 for the mandated program. The audit disclosed that \$445,583 is allowable and \$346,582 is unallowable. The unallowable costs occurred because the district overstated indirect costs and understated applicable offsetting revenues. The State paid the district \$106,264. The State will pay allowable costs claimed that exceed the amount paid, totaling \$339,319, contingent upon available appropriations.

Background

Education Code Section 72246 (repealed by Chapter 1, Statutes of 1984, 2nd Extraordinary Session [E.S.]) authorizes community college districts to charge a health fee for providing health supervision and services, direct and indirect medical and hospitalization services, and for operation of student health centers. This statute also required that health services for which a community college district charged a fee during fiscal year (FY) 1983-84 must be maintained at that level in FY 1984-85 and every year thereafter. The provisions of this statute would automatically sunset on December 31, 1987, at which time the community college districts' authority to charge a health fee as specified would be reinstated.

Education Code Section 72246 (amended by Chapter 1118, Statutes of 1987) requires any community college district that provided health services in FY 1986-87 to maintain health services at the level provided during that year in FY 1987-88 and each fiscal year thereafter.

On November 20, 1986, the Commission on State Mandates (COSM) determined that Chapter 1, Statutes of 1984, 2nd E.S., imposed a "new program" upon community college districts by requiring any community college district that provided health services for which it was authorized to charge a fee pursuant to former *Education Code* Section 72246 in FY 1983-84 to maintain health services at the level provided during that year in FY 1984-85 and each fiscal year thereafter. This maintenance-of-effort requirement applies to all community college districts that levied a health services fee in FY 1983-84, regardless of the extent to which the health services fees collected offset the actual costs of providing health services at the FY 1983-84 level.

On April 27, 1989, COSM determined that Chapter 1118, Statutes of 1987, amended this maintenance-of-effort requirement to apply to all community college districts that provided health services in FY 1986-87, and required them to maintain that level in FY 1987-88 and each fiscal year thereafter.

Parameters and Guidelines establishes the state mandate and defines reimbursement criteria. COSM adopted *Parameters and Guidelines* on August 27, 1987, and amended it on May 25, 1989. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for mandated programs in order to assist school districts in claiming reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Health Fee Elimination Program for the period of July 1, 2001, through June 30, 2003.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, not funded by another source, and not unreasonable and/or excessive.

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of *Government Code* Section 17558.5. We did not audit the district's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs claimed were supported.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, the North Orange County Community College District claimed \$792,165 for Health Fee Elimination Program costs. Our audit disclosed that \$445,583 is allowable and \$346,582 is unallowable.

For FY 2001-02, the State paid the district \$106,264. Our audit disclosed that \$144,667 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$38,403, contingent upon available appropriations.

For FY 2002-03, the State made no payment to the district. Our audit disclosed that \$300,916 is allowable. The State will pay allowable costs claimed, totaling \$300,916, contingent upon available appropriations.

**Views of
Responsible
Official**

We issued a draft audit report on May 6, 2005. Fred Williams, Vice Chancellor, Finance & Facilities, responded by letter dated June 15, 2005 (Attachment), disagreeing with the audit results in Finding 2. The district correctly noted that its FY 2000-01 claim was not subject to audit due to the expiration of the statute of limitations within which to initiate an audit. Consequently, the audit results for FY 2000-01 have been removed from this report. The district did not respond to Finding 1. This final audit report includes the district's response.

Restricted Use

This report is solely for the information and use of the North Orange County Community College District, the California Community Colleges Chancellor's Office, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

JEFFREY V. BROWNFIELD
Chief, Division of Audits

Schedule 1— Summary of Program Costs July 1, 2001, through June 30, 2003

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>July 1, 2001, through June 30, 2002</u>				
Salaries	\$ 506,087	\$ 506,087	\$ —	
Benefits	112,438	112,438	—	
Materials and supplies	38,414	38,414	—	
Travel	1,594	1,594	—	
Contract services	37,459	37,459	—	
Other operating expenses	32,306	32,306	—	
Capital outlays	13,960	13,960	—	
Total direct costs	742,258	742,258	—	
Indirect costs	282,058	235,039	(47,019)	Finding 1
Total health expenditures	1,024,316	977,297	(47,019)	
Less offsetting savings/reimbursements	(672,891)	(806,292)	(133,401)	Finding 2
Adjustment for health fees exceeding health expenditures	(26,338)	(26,338)	—	
Total program costs	<u>\$ 325,087</u>	144,667	<u>\$ (180,420)</u>	
Less amount paid by the State		(106,264)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 38,403</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Salaries	\$ 564,869	\$ 564,869	\$ —	
Benefits	144,860	144,860	—	
Materials and supplies	41,801	41,801	—	
Travel	1,826	1,826	—	
Contract services	36,025	36,025	—	
Other operating expenses	33,302	33,302	—	
Capital outlays	8,268	8,268	—	
Total direct costs	830,951	830,951	—	
Indirect costs	324,071	276,794	(47,277)	Finding 1
Total health expenditures	1,155,022	1,107,745	(47,277)	
Less offsetting savings/reimbursements	(687,944)	(806,829)	(118,885)	Finding 2
Adjustment for health fees exceeding health expenditures	—	—	—	
Total program costs	<u>\$ 467,078</u>	300,916	<u>\$ (166,162)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 300,916</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>Summary: July 1, 2001, through June 30, 2003</u>				
Salaries	\$1,070,956	\$1,070,956	\$ —	
Benefits	257,298	257,298	—	
Materials and supplies	80,215	80,215	—	
Travel	3,420	3,420	—	
Contract services	73,484	73,484	—	
Other operating expenses	65,608	65,608	—	
Capital outlays	22,228	22,228	—	
Total direct costs	1,573,209	1,573,209	—	
Less cost of services in excess of base year	—	—	—	
Subtotal	1,573,209	1,573,209	—	
Indirect costs	606,129	511,833	(94,296)	Finding 1
Total health expenditures	2,179,338	2,085,042	(94,296)	
Less offsetting savings/reimbursements	(1,360,835)	(1,613,121)	(252,286)	Finding 2
Adjustment for health fees exceeding health expenditures	(26,338)	(26,338)	—	
Total program costs	<u>\$ 792,165</u>	445,583	<u>\$ (346,582)</u>	
Less amount paid by the State		(106,264)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 339,319</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Overstated indirect costs

The district overstated indirect costs by \$94,296 during the audit.

The overstatement occurred because the district improperly applied its claimed indirect cost rate to direct costs of supplies and materials, travel expense, contract services, capital outlays, and other operating expenses. The district used indirect cost rates of 38% for fiscal year (FY) 2001-02 and 39% for FY 2002-03 that were based on Office of Management and Budget (OMB) Circular A-21 and approved by the U.S. Department of Health and Human Services. The approval letters, dated June 12, 1998, and August 12, 2002, stated that the district's indirect cost rates used a base consisting of "Direct Salaries and Wages including vacation, holiday, sick pay, and other paid absences but excluding all other fringe benefits." During the audit period, the district improperly applied the indirect cost rate to direct costs of supplies and materials, travel expenses, contract services, capital outlays, and other operating expenses, as follows.

	Fiscal Year		Total
	2001-02	2002-03	
Materials and supplies	\$ 38,414	\$ 41,802	
Travel	1,594	1,826	
Contract services	37,459	36,025	
Other operating expenses	32,307	33,302	
Capital outlays	13,960	8,268	
Subtotal	123,734	121,223	
Indirect cost rate	× 38%	× 39%	
Audit adjustment	<u>\$ (47,019)</u>	<u>\$ (47,277)</u>	<u>\$ (94,296)</u>

Parameters and Guidelines states that indirect costs may be claimed in the manner described in the SCO claiming instructions. The SCO claiming instructions state that community college districts must obtain federal approval for an indirect cost rate proposal (ICRP) prepared in accordance with OMB Circular A-21.

The *SCO Mandated Cost Manual* states that indirect costs must be distributed to benefiting cost objectives on bases that produce an equitable result in relation to the benefits derived by the mandate.

The OMB Circular A-21 methodology allows colleges and universities to calculate their indirect cost rate under the simplified method using either salaries and wages or modified total direct costs. The district proposed and negotiated an indirect cost rate based on salaries and wages—including vacation, holiday, sick-pay, and other paid absences but excluding all other fringe benefits—not on modified total direct costs. The rate agreement shows the appropriate rate application base. Section H(2)(e) of OMB Circular A-21 states that institutions must apply the facilities and administrative cost rate to direct costs of salaries and wages for individual agreements in order to determine the amount of facilities and administrative costs allocable to such agreements. The district must adhere to its rate agreement in claiming reimbursement of indirect costs.

Recommendation

We recommend that the district implement policies and procedures to ensure that the OMB Circular A-21 indirect cost rate is applied only to costs the district included in the base of the indirect cost rate calculation.

District's Response

The district did not respond to this finding.

SCO's Comment

The finding and recommendation remain unchanged.

**FINDING 2—
Understated
authorized health fee
revenues claimed**

Authorized health fee revenues reported by the district were understated by \$252,286 during the audit period.

Authorized revenues reported were understated primarily because the district understated district enrollment and overstated the number of enrolled students who were exempt from health fees. In addition, the district understated the per-student health fee for FY 2001-02. The district claimed \$8 per student for the summer 2001 semester and \$11 for the fall 2001 and spring 2002 semesters. However, the authorized fees for the FY 2001-02 school year were \$9 per student for the summer semester and \$12 for the fall and spring semesters. The district's claim for FY 2002-03 did not include any enrollment data to substantiate the amount of student health fee revenue claimed.

The district provided student enrollment data for each semester for both Fullerton and Cypress College during the audit period. For FY 2001-02, enrollment data the district provided disclosed differences between claimed and actual net student enrollment of 5,722 students. The auditor used the district's enrollment data to compute the number of students exempt from health fees for all three semesters of the FY 2002-03 school year. The auditor then used computed net enrollment amounts to compute the amount of health fee revenue authorized for that year.

The understated health fees were calculated as follows.

	Semester			Total	
	Summer	Fall	Spring		
<u>Fiscal Year 2001-02</u>					
Fullerton College:					
Per claim *	\$ 10,089	\$ 16,662	\$ 15,769		
Claimed student health fee	<u>× \$ 8</u>	<u>× \$ 11</u>	<u>× \$ 11</u>		
Subtotal	<u>\$ 80,712</u>	<u>\$ 183,282</u>	<u>\$ 173,459</u>		
Per audit *	(10,123)	(16,698)	(16,006)		
Authorized student health fee	<u>× \$ 9</u>	<u>× \$ 12</u>	<u>× \$ 12</u>		
Subtotal	<u>(91,107)</u>	<u>(200,376)</u>	<u>(192,072)</u>		
Audit adjustment	<u>\$ (10,395)</u>	<u>\$ (17,094)</u>	<u>\$ (18,613)</u>	(46,102)	

	Semester			Total
	Summer	Fall	Spring	
<u>Fiscal Year 2001-02 (continued)</u>				
Per audit *	(4,125)	(11,503)	(12,298)	
Authorized student health fee	× \$ 9	× \$ 12	× \$ 12	
Subtotal	<u>(37,125)</u>	<u>(138,036)</u>	<u>(147,576)</u>	
Audit adjustment	<u>\$ (4,637)</u>	<u>\$ (36,517)</u>	<u>\$ (46,145)</u>	(87,299)
Total audit adjustment, FY 2001-02				<u>(133,401)</u>
<u>Fiscal Year 2002-03</u>				
Fullerton College:				
Per audit *	\$ (10,771)	\$ (16,910)	\$ (16,228)	
Authorized student health fee	× \$ 9	× \$ 12	× \$ 12	
Authorized health fees audited	<u>\$ (96,939)</u>	<u>\$ (202,920)</u>	<u>\$ (194,736)</u>	(494,595)
Cypress College:				
Per audit *	(4,894)	(12,395)	(9,954)	
Authorized student health fee	× \$ 9	× \$ 12	× \$ 12	
Authorized health fees audited	<u>\$ (44,046)</u>	<u>\$ (148,740)</u>	<u>\$ (119,448)</u>	(312,234)
Total authorized health fees audited				(806,829)
Total health fees claimed				687,944
Total audit adjustment, FY 2002-03				<u>(118,885)</u>
Total audit adjustment				<u>\$ (252,286)</u>

* Number of students net of allowable health fee exemptions.

Parameters and Guidelines states that health fees authorized by *Education Code* must be deducted from costs claimed. *Education Code* Section 76355(c) states that health fees are authorized for all students except those students who: (1) depend exclusively on prayer for healing; (2) are attending a community college under an approved apprenticeship training program; or (3) demonstrate financial need. (*Education Code* Section 76355(a) increased authorized health fees by \$1 effective beginning with the summer 2001 session.)

Also, *Government Code* Section 17514 states that “costs mandated by the State” means any increased cost that a school district is required to incur. If community college districts can charge a fee, then they cannot are not required to incur a cost. In addition, *Government Code* Section 17556 states that the Commission on State Mandates must not find costs to be mandated by the State if the school district has the authority to levy fees to pay for the mandated program or increased level of service.

Recommendation

We recommend that the district deduct authorized health service fees from allowable health service program costs on the mandate claim. The district should maintain records to support its calculation of authorized health service fees. The district should ensure that only those students who meet the requirements of *Education Code* Section 76355(c) are exempt when it calculates authorized student health fees for the Health Fee Elimination Program.

District's Response

. . .there is no state law or regulation which requires districts to collect a fee for health supervision or services; therefore, we request that you reduce your disallowed cost for the difference between the claimed student health fee rate and the authorized student health fee rate for the 2001-02 fiscal year.

For the reasons stated herein, the North Orange County Community College District respectfully submits that the proposed audit report be corrected as to the facts and the law prior to its final issuance.

SCO's Comment

The finding and recommendation remain unchanged. We concur that community college districts are not required by state law or regulation to levy a fee for health supervision or services. However, *Education Code* Section 76355 provides the district the authority to levy a health services fee. Therefore, the related health services costs are not mandated costs as defined by *Government Code* Section 17514. Health services costs recoverable through an authorized fee are not costs the district is required to incur. *Government Code* Section 17556 states that the COSM must not find costs mandated by the State as defined in *Government Code* Section 17514 if the district has authority to levy fees to pay for the mandated program or increased level of service.

The district did not respond to the portion of the finding related to understated district enrollment and overstated health-fee exemption waivers.

**Attachment—
District's Response to
Draft Audit Report**



NORTH ORANGE COUNTY
COMMUNITY COLLEGE DISTRICT

FRED WILLIAMS
Interim Vice Chancellor
Finance & Facilities

JEROME HUNTER, Ed.D.
Chancellor

June 15, 2005

Mr. Jim L. Spano, Chief
Compliance Audit Bureau
California State Controller
Division of Audits
P. O. Box 942850
Sacramento, CA 94250-5874

Dear Mr. Spano:

RE: HEALTH FEE ELIMINATION AUDIT

This letter is the response of the North Orange County Community College District to the letter of Vincent P. Brown, dated May 6, 2005, which enclosed a draft copy of your audit report of our District's Health Fee Elimination Program, Chapter 1, Statutes of 1984, and Chapter 1118, Statutes of 1987, for the periods of July 1, 2000 to June 30, 2003.

The District's 2000-2001 claim was filed on December 5, 2001. This claim was not subject to audit after December 31, 2003.

In addition, there is no state law or regulation which requires districts to collect a fee for health supervision or services; therefore, we request that you reduce your disallowed cost for the difference between the claimed student health fee rate and the authorized student health fee rate for the 2001-2002 fiscal year.

For the reasons stated herein, the North Orange County Community College District respectfully submits that the proposed audit report be corrected as to the facts and the law prior to its final issuance.

Sincerely,

Fred Williams, CPA
Vice Chancellor, Finance & Facilities

04/05-62

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, California 94250-5874**

<http://www.sco.ca.gov>